

1 **Q. PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS ADDRESS**
2 **AND OCCUPATION.**

3 A. My name is Roy H. Barnette. My business address is 101
4 Executive Center Drive, Columbia, South Carolina. I am
5 employed by the Public Service Commission of South
6 Carolina as an Auditor.

7 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

8 A. Following a six year enlistment in the United States
9 Marine Corps, I received a B. S. Degree in Business
10 Administration with a major in Accounting from the
11 University of South Carolina in 1968. From 1968 to 1971
12 I was employed with S. D. Leidesdorf and Company, a
13 national CPA firm in Charlotte, North Carolina. In 1972
14 I entered the private business sector. My most recent
15 position was with Bagnal Builders Supply Co. Inc., here
16 in Columbia, where I served as Senior Vice President and
17 Chief Financial Officer from 1972 until September 1999
18 when I joined the Audit staff of this Commission.

19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING SOUTH**
20 **CAROLINA ELECTRIC AND GAS COMPANY?**

21 A. The purpose of my testimony is to present the Audit
22 Staff's findings and recommendations resulting from a
23 review of the books and records pertaining to (1)

Purchased Gas Adjustment (PGA) and (2) Environmental Cleanup Costs (ECC) of South Carolina Electric and Gas Company. In Docket No. 2001-6-G, Order No. 2001-1003 dated October 26, 2001, the Commission approved a PGA and ECC Factor of \$.59646 and \$.03 per therm respectively. In Docket No. 2002-5-G, Order No. 2002-747 dated October 28, 2002, the Commission approved a PGA and ECC Factor of \$.72788 and \$.03 per therm, respectively. In Docket No. 2002-5-G, Order No. 2003-114 dated March 5, 2003 the Commission approved a PGA Out-Of-Period Price Adjustment to \$.92780 per therm effective with the first billing cycle in March 2003. In Docket No. 2003-5-G, Order No. 2003-652 dated November 17, 2003 the Commission approved a PGA and ECC Factor of .87656 and .008 per therm, respectively. In the current proceeding, the Company is requesting approval of an increase in the PGA Factor from \$.87656 per therm to \$.90347 per therm, or an increase of \$.02691 per therm. The Company is also requesting that the currently approved Environmental Cleanup Cost (ECC) Factor of \$.008 per therm, remain in effect.

Q. IN CONNECTION WITH YOUR TESTIMONY, DID YOU PREPARE, OR CAUSE TO BE PREPARED CERTAIN EXHIBITS?

1 A. Yes. The Audit Staff has prepared Audit Exhibits A
2 through C which are attached to my testimony.

3 **Q. ON WHAT AUTHORITY DOES THE COMMISSION STAFF MONITOR THE**
4 **COMPANY'S DEFERRED COST OF GAS?**

5 A. In Docket Number 87-426-G, Order Number 87-898 dated
6 August 14, 1987, the Commission required an annual
7 review of the Purchased Gas Adjustment and Gas
8 Purchasing Policies of South Carolina Electric and Gas
9 Company.

10 **Q. HAS STAFF CONDUCTED THE COMMISSION'S REQUIRED AUDIT OF**
11 **THE COMPANY'S DEFERRED COST OF GAS?**

12 A. Yes. The Audit Staff has reviewed the Company's Unbilled
13 Revenue Calculations for the twelve months ended August
14 31, 2004 and traced amounts to books and records of the
15 Company and to supporting documentation.

16 **Q. WOULD YOU PLEASE EXPLAIN THE FORMAT USED IN AUDIT**
17 **EXHIBIT A?**

18 A. Yes. Audit Exhibit A is the Company's Unbilled Revenue
19 Calculation for the test year ended August 31, 2004.
20 The Company's total cost of gas is shown in Column (1)
21 of \$289,795,928. SCE&G purchases all of its gas from
22 South Carolina Pipeline Corporation, a SCANA Subsidiary,
23 and utilizes propane air plants during peak demand

1 periods. All costs shown in Column (1) have been
2 verified from invoices of the supplier and traced to
3 books and records of the company. Column (2) of the
4 exhibit is the non-competitive cost of gas per therm as
5 compared with Column (3), which are the PGA Factors
6 approved by the Commission for the review period. The
7 difference in the two factors, shown in Column (4), when
8 applied to the Firm Therms sold in Column (5),
9 determined the Unbilled Monthly (Over)/Under-Collection
10 shown in Column (6). Finally, Column (7) has the
11 Unbilled Revenue corrections for prior months based on
12 supplier billing corrections. Columns (6) and (7) plus
13 the cumulative (Over)/Under-Collection from the previous
14 month equals the cumulative (Over)/Under-Collection in
15 Column (8). Staff's cumulative (Over)/Under-Collection
16 calculation reflects a cumulative over-collection of
17 (\$9,621,142) as of August 31, 2004. Including the
18 projections made by the Company for September and
19 October 2004, results in a net over-collection for the
20 review period of (\$10,813,959) and a cumulative net
21 over-collection as of October 31, 2004 of (\$5,338,064).
22 The Company's proposed cost of gas for the twelve months
23 ending October 2004 is \$.90347 which is designed to

1 refund the entire over-collection of (\$5,338,064) at
2 October 31, 2005.

3 **Q. WOULD YOU EXPLAIN AUDIT EXHIBIT B ENTITLED 'CALCULATION**
4 **OF COST PER THERM SOLD'?**

5 A. Audit Exhibit B shows the calculation of Cost of Gas per
6 Therm for firm and base rate interruptible customers.
7 Column (1) shows the cost of gas to competitive
8 customers under the Industrial Sales Program Rider
9 (ISPR) totaling \$99,095,255. Column (2) shows non-
10 competitive Cost of Gas (firm and base rate
11 interruptible customers) of \$190,700,673. Column (3) is
12 the sum of columns (1) and (2) which results in the
13 company's Total Cost of Gas by month which agrees with
14 column (1) of Audit Exhibit A. Columns (4) and (5)
15 present the Firm and Base Rate Interruptible therms
16 sold, respectively, on a monthly basis. Column (6) is
17 the sum of Columns (4) and (5). Dividing Column (2),
18 non-competitive cost of gas, by Column (6), total non-
19 competitive therms, results in column (7), total non-
20 competitive cost per therm for an average of \$.782272
21 for the test year. Column (8) represents the company's
22 cost per therm for propane. Column (7) plus column (8)
23 equals column (9) which contains the total cost of gas

1 per therm for firm and base rate interruptible customers
2 and agrees with column (2) of Audit Exhibit A.

3 **Q. WOULD YOU EXPLAIN AUDIT EXHIBIT C ENTITLED**
4 **'ENVIRONMENTAL CLEANUP COSTS'?**

5 A. Yes. In Order No. 94-1117, this Commission approved a
6 factor of \$0.006 per therm to be added to the PGA to
7 recover Environmental Cleanup Costs (ECC) of
8 \$19,300,000, resulting from the dismantlement of
9 manufactured gas plants (MGP). The Commission further
10 determined that this matter would be heard at the same
11 time as the annual review of the PGA. Also, in Docket
12 Number 97-006-G, Order Number 97-920, dated November 24,
13 1997, the Commission approved an additional \$0.005 to be
14 added to the ECC factor for a total of \$0.011 per therm
15 as a result of an approved liability of \$26,000,000 to
16 the City of Charleston, S. C. In Docket Number 2001-6-G,
17 Order Number 2001-1033 dated October 26, 2001 the
18 Commission approved an increase in the ECC Factor from
19 \$0.011 per therm to \$0.03 per therm. In Docket Number
20 2003-5-G, Order Number 2003-652 dated November 17, 2003,
21 the Commission approved a reduction in the ECC Factor
22 from \$.03 per therm to \$.008 per therm. In the current
23 proceeding, the Company is requesting that the currently

1 approved ECC Factor of \$.008 per therm, remain in
2 effect. During the review period, SCE&G collected
3 \$2,498,235 through the use of the ECC-MGP. The total
4 balance to be collected from ratepayers through the PGA
5 Factor, shown in Audit Exhibit C, is summarized as
6 follows:

7	Total Estimated Liability:	\$ 57,000,000
8	Less: Amortization and Collections	\$(35,890,665)
9	Less: Insurance Commitments:	<u>\$(12,388,698)</u>
10	Balance to be collected:	<u>\$ 8,720,637</u>

11 During the twelve months ending July 31, 2004, the
12 Company incurred actual environmental clean-up costs of
13 \$1,094,845 on six projects. The six project locations
14 are identified as follows: the Calhoun Park site located
15 in Charleston, South Carolina, the Huger Street and USC-
16 Catawba Street sites, both located in Columbia, South
17 Carolina, the Macon-Dockery Superfund site located in
18 Cordova, North Carolina and sites located in Florence
19 and Sumter, South Carolina. Of the total amount,
20 \$793,128, or 72.44% of these costs were spent at the
21 Charleston site and \$108,625, or 9.92% of these costs
22 were spent at the two (2) Columbia sites. Staff sampled
23 invoices amounting to \$1,022,314, or 93.38% of the

1 total. Including the City of Charleston settlement of
2 \$26,000,000, the Company has incurred cumulative
3 Environmental Remediation expenses of \$50,900,556.

4 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

5 A. Yes, it does.